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NATIONAL INTELLIGENCE DAILY CABLE

Saturday May 7, 1977

CG NIDC 77-106C



NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Saturday, May 7, 1977.

The NID Cable is for the purpose of informing senior US officials.

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JAPAN: Possible Trade Surplus

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[redacted] //Japan is well on its way to a record \$13-billion trade surplus this year. Tokyo may step up efforts to slow export growth, lower selected import barriers, and allow some further appreciation of the yen, but these measures will come too late to trim this year's surplus appreciably. Japan's surplus with the United States will at least match the 1976 level of \$5 billion and may even exceed \$6 billion.//

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[redacted] //Japanese exports should exceed \$77 billion this year, 17 percent above 1976. More than half the increase will reflect higher prices, particularly for cars and consumer electronics.//

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[redacted] Japanese imports will reach \$64 billion, 14 percent above 1976. Even if Japan achieves its 6.7-percent growth target for the 1977 fiscal year, which began on April 1, import volume will increase only 8 percent in calendar year 1977. Oil imports should increase about 5 percent in volume and roughly 17 percent in value. Prospects are dim for a revival in machinery or consumer goods imports at this time because of the low level of domestic confidence in Tokyo's reflation efforts.//

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[redacted] //Japan's heavy dependence on developed countries to absorb exports this year will ease because of Tokyo's sensitivity to complaints by other industrial countries, new trade barriers by these countries, and reviving import demand in less developed countries. In the first half of 1976, sales to the US and Western Europe accounted for nearly all of Japan's increase in exports; by the end of the year the share had slipped to 70 percent, and it was under 50 percent for the first quarter of 1977. So far this year, sales to less developed countries are outpacing the growth in Japan's total exports.//

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[] //Japan's surplus with the United States in 1977 will be at least as large as the \$5.2-billion imbalance in 1976 and could surpass \$6 billion if Japanese machinery imports remain sluggish during the rest of the year. Japanese sales to the US will likely exceed \$18 billion, 15 percent above last year. Moderate volume gains for cars will be bolstered by higher prices. Toyota, Nissan, and Mazda have already announced their second round of price hikes on 1977 models; Honda is expected to follow suit.//

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[] //Japanese TV exports will continue to do well this year even if Japan agrees to US demands to hold color TV exports to the US to 1.5 million units in 1977--half of the 1976 level. Part of the drop will be offset by higher prices resulting from the recent US customs court decision requiring Japanese firms to post a 5-percent to 20-percent bond on all Japanese color TVs exported to the US. By midyear, most producers will begin marking up merchandise because of the yen's recent appreciation.//

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[] //Japanese imports from the US are expected to reach \$12 billion. Any increase above this level will depend on Tokyo's ability to boost business confidence enough to spur investment and machinery imports. Roughly 30 percent of US sales to Japan are capital goods. Food and raw material imports will increase only 3 to 5 percent in volume and probably less in price.//

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[] //Tokyo is moving slowly in several areas in response to pressure from major trading partners regarding its large surplus. It is considering lowering some nontariff import barriers, though not enough to boost imports much.//

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[] //Tokyo seems to be moving more forcefully on the export side. The government is tightening its already extensive oversight procedures on Japanese export industries. Tokyo is concerned because existing procedures did not predict last year's surge in Japanese TV shipments to the US. Even so, Japan probably will not take unilateral action without some form of reciprocity from its trading partners.//

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[] //For example, Tokyo is willing to accept voluntary export restraints in exchange for a US pledge to drop all

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actions against Japanese TV imports. Without this type of agreement, Tokyo may retaliate. It is already examining the potential impact of higher tariffs on US exporters of semiconductors to Japan.//

25X1 [] //Japan's large trade surplus has meant continuing upward pressure on the yen. In the past few weeks, however, Tokyo's move to cut interest rates as part of a reflation effort has pushed the yen down about 2 percent, to 278 to the dollar. Once interest rates settle, the yen will likely move back to the 270 level, at which Tokyo will actively intervene to prevent further appreciation. []

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USSR-ETHIOPIA: Mengistu's Visit

25X1 [] //Ethiopian military leader Mengistu's current state visit to the USSR has resulted in the signing of a joint political document setting forth each side's commitment to developing bilateral relations. Mengistu probably values the document primarily for its likely negative impact on Ethiopia's arch rival, Somalia. The Ethiopians and Soviets also signed economic, cultural and scientific, and consular agreements.//

25X1 [] The political document presumably is similar to agreements Moscow has reached with many other Western and third-world countries. These usually contain statements of principles on the two sides' willingness to work for closer political, economic, and sometimes military relations.

25X1 [] The Soviets signed such documents prior to concluding their friendship treaties with Angola and Mozambique, and this document could set the stage for an eventual Soviet-Ethiopian friendship treaty. At present, however, Moscow probably is reluctant to go this far--even if Ethiopia were willing--for fear of further antagonizing Somalia.

25X1 [] Moscow has been careful not to give Mengistu any better treatment than that accorded Somali President Siad during his last state visit to the USSR. Moscow's concern about Western and moderate Arab efforts to profit from the USSR's troubles with Somalia was evident in President Podgorny's speech at his

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dinner for Mengistu. Podgorny blasted unnamed "imperialists" for using some Arab countries, above all Saudi Arabia, to try to establish control in the Red Sea region.

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[redacted] //Mengistu's visit probably will nonetheless offend Somalia and could further reinforce President Siad's determination to loosen his ties to the Soviets by improving relations with the West and the Arabs states.//

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[redacted] One incident that marred Mengistu's stay in Moscow was a demonstration by anti-Mengistu Ethiopian students at the Ethiopian embassy in Moscow. The demonstration was quickly suppressed by Soviet officials, who have said nothing publicly about the incident. Mengistu left Moscow yesterday and will be spending a few days traveling about the USSR before returning to Addis Ababa.

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WEST GERMANY: Unemployment

[Redacted] //West German unemployment in April remained above the politically sensitive 1-million level, dashing the government's hope of reducing average unemployment for the year to 850,000. Chancellor Schmidt may face increasing domestic criticism over the continued high level of unemployment, which will add to his numerous other problems at home.//

[Redacted] //West Germany's seasonally adjusted unemployment increased last month, reversing a general trend of small but steady declines. Private West German economic projections see unemployment at between 950,000 and 1 million this year, nearly 4.5 percent of all wage and salary earners.//

[Redacted] //The slight increase probably reflects some slowing in the country's economic growth rate from the 6 percent registered in the fourth quarter of last year. Receipt of new orders and the growth of industrial production have slowed in recent months. Investment demand remains sluggish, and retail sales are not showing the strength expected by the government.//

[Redacted] //While exports remain the principal growth factor in the economy, the current-account balance in the first three months of this year was down sharply from the corresponding 1976 period, largely because of increased service and transfer payments. Reflecting the generally worsened business outlook, private West German economic researchers have scaled back their projections of 1977 gross national product growth to between 3.5 percent and 4.5 percent. Our analysis indicates that a 4.5 percent growth rate is feasible.//

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[redacted] //Bonn's much-acclaimed \$5-billion to \$6-billion medium-term investment program is not likely to contribute to economic growth and employment this year, unless the government decides to increase substantially its request for 1977 spending authority under the program. Finance Minister Apel already has introduced a supplemental budget requesting spending authority for \$220 million in cash outlays and requesting the authority to place orders totaling \$1.6 billion. The effect of even the very modest increase in spending authority was to be neutralized, however, by offsetting cuts in other expenditures.

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PAKISTAN: Demonstrations

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[redacted] *Demonstrations yesterday in Pakistan do not appear to have been serious enough to present an immediate threat to Prime Minister Bhutto's ability to stay in office. They may nevertheless have been sufficiently successful to encourage the opposition to continue its campaign against him.*

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[redacted] The opposition was able to stage demonstrations in most large cities, including the three largest, where martial law and a curfew were in effect. The most serious incident apparently was in Lahore, where troops fired on demonstrators, killing three. There were also clashes in Hyderabad, Sukkur, and Lyallpur.

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[redacted] Official announcements have always tended to play down the level of violence, and with censorship in effect there is no other source of current information on events outside the few major cities where there are foreign officials and newsmen.

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Mozambique Nationalization

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[] Mozambique's largest oil company was nationalized this week, in what the government termed an effort to intensify the struggle for economic independence. The new state-owned oil company will be run with Romanian technical and managerial assistance.

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[] Before nationalization, the company was owned by a Portuguese businessman, a French company, and the Mozambican government. The company operated the country's only refinery, with a capacity of 11,000 barrels per day, and held 40 percent of the commercial petroleum sales market. The takeover decree reportedly calls for compensation.

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[] About 14 Romanians arrived in Maputo last week to assume managerial and technical positions in the new company, with another 16 expected within a month. The British and French personnel who have been running the company are likely to depart within 30 days.

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[] Local managers of Caltex, a US company, and Shell/British Petroleum do not expect their companies to be nationalized soon. State oil pricing policies could lead to a steady drop in business, however, for the remaining foreign operations.

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USSR-SWEDEN: Fishing Dispute

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[] *The USSR and Sweden are at odds over delineating a fishing boundary in the Baltic Sea between the two countries. The Swedish government recently submitted a bill to the legislature that would permit the country's fishing zone to 200 nautical miles. If the bill is passed, Sweden may claim 45 percent of the Baltic fishing area, compared with the 10 percent it claims at present.*

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[] Sweden wants its zone to extend to a line equidistant from the USSR and the Swedish island of Gotland, 80 miles east of the Swedish mainland. The Soviets contend that the limit should be drawn between the two mainlands, as provided for in the 1973 Gdansk Convention, which regulates fishing between coastal states. In that case, the delineation would lie less than 12 nautical miles east of Gotland.

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[] In recent discussions, Soviet and Swedish delegations agreed that negotiations on Baltic Sea fishing should be resumed soon. The head of the Swedish delegation has indicated that if no agreement is reached soon, however, Sweden may unilaterally declare a fishing boundary between the two countries.

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